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ABEL Strategy — First Quarter 2010 — April 8, 2010
Retirement Planning & Wealth Management

Beyond Our Borders

For the better part of two decades, U.S. consumers held up global growth. We no longer have the financial strength to support that growth by ourselves. Too much of our spending was financed with borrowed money and those days are history.

We spent too much and saved too little while large parts of the world did the opposite. That caused trade imbalances, which eventually proved unsustainable. The credit crunch could be the catalyst for a rebalancing of economic growth around the world.

Developing countries growth should result in expanding middle classes with money to spend on consumer goods that most of us take for granted, such as cars, televisions, cell phones and computers.

Developing countries are projected to grow 5% this year, triple the rate of developed countries. By 2050, nations classified as “emerging” are projected to represent 60% of the world’s economic output, up from 20% a few years ago.

Developing economies are projected to owe 40% of their GDP by 2014, compared to 120% for developed countries. With a few exceptions, the biggest problems, or potential problems, are in the developed world.

In Brazil, Russia, India and China (the BRIC countries), most companies have debt-to-equity ratios of barely one-third that of American companies. Developing nations enjoy higher household savings rates than in the U.S., leaving plenty of room to boost spending as living standards improve. Bottom line: consumption could boom in developing countries.

‘Emerging markets’ is an asset class that currently accounts for only 13% of world equity markets, and is home to billions of potentially upward mobile, mostly debt-free consumers.

It won’t matter where the businesses that sell to this new class of customers are headquartered. Exposure to international economies can be obtained through U.S. multinational corporations; however, foreign sales account for only 32% of revenue for American firms. Emerging market company finances are in better shape, their currencies appear strong and their growth rates are attractive. There’s a lot to like.

The changes won’t happen overnight. Structural issues still remain. Most developing countries lack social safety nets that could give their populations confidence to spend. Few provide unemployment insurance or anything close to our Social Security system. Better infrastructures are needed. To reach their economic potential, countries need roads, bridges, rail and telecommunications systems, as well as legal frameworks that safeguard foreign and domestic capital. Consumption growth is a natural consequence of possessing a healthy economic infrastructure, and China is especially well-positioned to meet its massive infrastructure needs because of its command-style economy.

Diversifying internationally doesn’t reduce losses when economies are infected with the kind of financial virus that struck in late 2007. Fortunately, such global financial pandemics are rare. Geographic diversification does not guarantee a profit nor protect against a loss. The tendency of one market to zig as another zags dampens volatility. The best returns in coming years may be a result of having a broad exposure to international markets.

Jim Ellman

The More You Have The More You Want More Than You Have

Will History Repeat Itself?

About 20% of the time since I was born (1941) the market has been above its historical norm (S&P500 dividend yield <3.7%) and the 1 year CPI & 10 year Treasury yield have been higher than they were 6 months earlier. When both conditions existed at the same time the market (S&P500) produced an annualized return of 0.28%. When they did not exist market return averaged 14.94%.

Now add the condition that the yield on Treasury Bills is higher than 6 months ago, and the annualized return drops to **minus 0.83%**.

And the discount rate is higher than 6 months earlier, the annualized drops to **minus 2.22%**.

And if the recent market advances have been strong –like March-December 2009- the annualized return drops to **minus 39.2%**.

This combination of conditions has never existed for 12 full months so actual losses have been less than suggested, but in excess of 10%. Hussman Funds has determined that there have been only 3 such periods since the 1940's: 1999 (August-October), 1987 (September-October) and 1955 (September-December).

Can we afford to ignore these risks and speculate? I believe better times are ahead, but that they are further out on the calendar than most expect.

Jim

> Performance <

	1st Qtr	12 Mos	3 yrs	5 yrs
Dow	4.8%	46.9%	-1.5%/y	3.3%/y
S&P500	5.4	49.8	-4.2%/y	1.9%/y
Nasdaq	5.9	58.3	0.6%/y	4.6%/y
ABEL *	3.1	0.7	-3.7%/y	3.1%/y

* includes mix of security types listed below

⇒ Indexes from Managers Funds

	1st Qtr	12 Mos
Cash & CDs	+ 0.1%	+ 0.6%
Fixed Income	+ 1.9%	+ 9.1%
US Stock Funds	+ 4.8%	+23.2%
International Funds	+ 3.8%	+51.1%
Individual Stocks	+ 5.8%	n/a
Abidar Cap Mgmt	+ 2.9%	- 41.3%
Miller-Howard Sep Acct	+ 7.4%	n/a

Income down? Laid off? College tuition due? Postponing retirement?

Call for a free consultation

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What information consumes is rather obvious: it consumes the attention of its recipients. Hence, a wealth of information creates a poverty of attention.

-Herbert Simon

Did You Know ...

11... Percentage of the public giving the financial services industry a positive rating, tied with tobacco as the lowest ranked industry
(Harris Interactive)

38... Percentage of married couples who discuss investment decisions related to retirement with one another.
(Fidelity)

42,000... The median retirement savings balance in dollars of consumers over age 60.
(Tiburon Strategic Advisors)

28... The number of states that mandate financial literacy education for high school students.
(Harvard Business School)

68... Percentage of high net worth investors who believe the risk of a further drop in asset prices is too high to take advantage of investment opportunities. (Barclays Wealth)

80... Percentage of CPA financial advisors who are strongly recommending clients move toward a mix of growth and income securities; 65% also recommended more fixed income securities.
(Am Institute of CPAs)

36... Percentage of mutual fund owners who don't know which funds they own.
(Charles Schwab & Co)

18,159... The total number of fee-based advisers in the U.S. in 2009.
(Tiburon Strategic Advisors)
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Gold or No Gold

The demise of the Bretton Woods exchange-rate system took place in 1973. In the intervening 37 years, while trading freely, gold has averaged 7.1% average annual return. That sounds attractive, but...

That average is significantly better than would otherwise be the case due to six brief spikes in price that lasted just 66 months (15% of the time) during that thirty-seven year period. The rest of the time (85%) gold lost value at the average rate of 3.6% a year. Humm? Maybe not so attractive, and...

Stocks rise well over half the time during most all 37 year periods.

Gold? Now?

Not surprisingly, the combination of all of these is rare but extremely powerful.

In the rare instances when

- 1) The rate of inflation has been higher than 6 months earlier,
- 2) Treasury bond yields have been lower than 6 months earlier,
- 3) the NAPM Purchasing Managers Index has been below 50, and
- 4) the Gold/XAU ratio has been above 4.0,

the XAU (Philadelphia Gold and Silver Index) has soared at an astounding rate of 123.63% annualized. In contrast, when none of these have been true, the XAU has plunged at a negative 53.21% annualized.

That's a gaping difference. And it is far more volatile than most clients are willing to experience.

Hussman Funds Report

Almost all of our clients have some exposure to one or both of the Hussman funds. They recently published their December 31st semi-annual report and we encourage you to read it. Their goal, as we see it, is to "Preserve and Protect" the wealth you have worked hard to accumulate. They attempt to take risks with your money only when the potential rewards justify doing so. www.hussmanfunds.com

Reducing Costs on Investment Trades

The purchase of Exchange Traded Funds "ETFs" and stocks generates a transaction fee. This 'commission' is charged by Schwab to effect the trade. The standard fee for up to a 1000 share trade is \$19.95. If you have signed up for eDelivery (eConfirms & eStatements), the charge is reduced to \$8.95 as of January 19th. That's a 55% discount. If your 'householded' accounts total more than \$999,999 the \$8.95 fee is applicable regardless of whether you have signed up for eDelivery.

Call Schwab Alliance for help in taking advantage of the first discount.
They can be reached at 800-515-5623 or 800-291-8510

On a less serious note ... From George Carlin, a real master of the comedic arts, a few of his quips.

Why are a wise man and a wise guy opposites?

"I am" is reportedly the shortest sentence in the English language. Could it be that "I do" is the longest?
Why is a person who plays the piano called a pianist but the person who drives a race car not called a racist?

What hair color do they put on the driver's license of bald men?

If lawyers are disbarred and clergymen defrocked, doesn't it follow that electricians can be delighted, musicians denoted, cowboys deranged, models deposed, tree surgeons debarked, and dry cleaners depressed.

And closer to home...Why is a person who invests your money called a broker?

"The only reason for time is so everything doesn't happen at once" -Albert Einstein

Estate Taxes Are Gone ... For Now

Part of the Bush tax cuts included the lapsing of the estate tax in 2010, to be reinstated in 2011. Congress was to have rewritten the Estate Tax section of the tax code before the end of 2009 but the health care issue took their attention away from that.

Many living trusts use formula clauses to maximize the distribution to the children without creating a taxable event. In 2009 an estate of \$3.5 million would pass to the children with the excess avoiding taxes by passing to the surviving spouse. With no estate tax in 2010, estates of people dying this year would pass 100% to the kids with nothing to the surviving spouse...probably not the parents' intention.

Another common clause provides for the kids to get the 'exclusion amount'. With no exclusion amount, the kids are disinherited...again probably not the parents' intention.

The state of Virginia, and other states, is **crafting** a bill that would require all estates and trusts to be treated as if it were 2009, unless Congress acts.

Come 2010, only 16 cents of every dollar of global economic growth will come from the U.S., nearly half the level in 1980. While GDP is tied to the American consumer, S&P profits are boosted just as much by corporate spending and overseas growth.

Barron's Dec 2009

Ways to Afford Your Retirement Account Catch-Up Contributions

Turning 50 might not be everyone's idea of excitement, but when it comes to saving for retirement, 50 is when things start getting a lot more interesting.

That's because people age 50 and over can make what are known as "catch-up" contributions to IRAs and most workplace-based retirement plans. These special contributions are in addition to regular contribution limits and allow individuals to maximize the amount of tax-advantaged retirement savings they can stash away.

The catch-up phenomenon has never been more important as American workers attempt to rebuild retirement savings devastated by recent market losses. Taxpayers 50 or older are permitted to make additional contributions beyond standard limits. For calendar year 2010, here are the standard contribution limits with their catch-up amount:

Traditional and Roth IRAs have a standard contribution limit of \$5,000 with an over-50 catch-up contribution of \$1,000 for a total contribution limit of \$6,000.

SIMPLE IRAs have a standard contribution limit of \$11,500 with an over-50 catch-up contribution of \$2,500 for a total contribution limit of \$14,000.

401(k), 403(b), 457(b), Roth 401(k) and Roth 403(b) plans have a standard contribution limit of \$16,500 with a catch-up contribution of \$5,500 for a total contribution limit of \$22,000.

So, where to find the money? Here are some suggestions: earn more, cut out the extras, set a budget, do your own home and auto maintenance, turn down the thermostat, park the car (see the American Public Transit Association's [gas savings calculator](#)), use debit cards in place of credit cards, buy used when you can.

Financial Planning Association

“The market can stay irrational longer than you can stay solvent.” - John Maynard Keynes